KEYSPAN ENERGY DELIVERY NEW ENGLAND
SPARE COMPONENT AND ACQUISITION INVENTORY POLICY AND
PRACTICE
AS OF December 31, 2004

The purpose of this report is to document a process for identifying, acquiring, and stocking critical spare items for our distribution system. The process is documented below:

1) Develop critical items in inventory
   a) Solicit feedback from end users for list of top approximate100 critical items
   b) Run Oracle report for usage history
   c) Evaluate vendor lead time and shipping considerations
2) Combine information above to develop final list of top (approximate) 100 items to be considered critical. This is done for KeySpan's two warehouses and is based on the needs and discussions with the divisions requesting material from that particular warehouse:
   a) S.Yarmouth
   b) Wilmington
3) Inventory items are assigned a minimum and maximum quantity in Oracle Inventory Materials Management software application
   a) When quantity reaches minimum or below, an automated Oracle requisition or purchase order will be initiated after authorized by a supervisor to order quantity required to reach maximum set quantity.
4) Inventory items are assigned a regular period to be physically counted (cycle count).
   a) Counts performed and inventory database adjusted as necessary
5) Inventory material is issued from the warehouse and Oracle Inventory software is updated to reflect actual quantity on hand.
6) Oracle performance reporting
   a) Supply Chain will run reports periodically from Oracle Inventory to track performance of warehouse